

REMARKS

The Examiner has rejected claims 1 - 28 under 35 U.S.C. §101 because the claimed invention is directed to subject matter that is alleged to be non-statutory. For purposes of economy, Applicant restates, *ipsissimus verbis*, the exact text of the Examiner's rejection:

The basis for this rejection is set forth in a two prong test of:

- (1) whether the invention is within the technological arts; and
- (2) whether the invention produces a useful, concrete and tangible result.

For a claimed invention to be statutory, the claimed invention must be with the technological arts. Mere ideas in the abstract (i.e. abstract ideas, law of nature, natural phenomena) do not apply, use or advance the technological arts fail to promote the "progress of science and the useful arts" (i.e. the physical sciences as opposed to social sciences, for example) and therefore are found to be non-statutory subject matter. For a process claim to pass muster, the recited process must somehow apply, involve, use or advance the technological arts.

In the present case, claims 1-28 only recite an abstract idea. The recited steps of transferring goods from a licensor to a licensee by means of a license having terms wherein the license reserves some of the intellectual property rights in the goods and the licensee is prohibited from using the goods to develop any new intellectual property does not apply involve, use, or advance the technological arts since all of the recited steps can be performed in the mind of the user or by use of pencil and paper. These steps only constitute an idea of how to license intellectual property with a reservation of rights.

As background to the discussion that follows, Applicant notes that business methods generally are now patentable in the United States. State Street Bank and Trust Co. v. Signature Financial Group, 927 F. Supp. 502, 38 U.S.P.Q.2d 1530 (D. Mass 1996), *rev'd*, 149 F.3d 1368, 47 U.S.P.Q.2d 1596 (Fed. Cir. 1998) *cert. denied* 525 U.S. 1093 (1999). Almost any process can be categorized as an algorithm and on that basis declared unpatentable. Stevens, J. *dissenting in Diamond v. Diehr*, 450 U.S. 175, 209 U.S.P.Q. 1, 11

(1981). However, it should be noted that both Diehr and Arrhythmia stand for the proposition that use of an algorithm in a transformation constitutes patentable subject matter. Diamond v. Diehr, 450 U.S. 175, 209 U.S.P.Q. 1 (1981); Arrhythmia Research Technology, Inc. v. Corazonix Corp., 958 F.2d 1053, 22 U.S.P.Q.2d 1033 (Fed. Cir. 1992). In contrast to State Street Bank which dealt with apparatus claims in a business method, method claims are not to be treated differently from apparatus claims. AT&T Corp. v. Excel Communications, Inc., 172 F.3d 1352, 50 U.S.P.Q.2d 1447 (Fed. Cir. 1999)

The Examiner's rejection is respectfully traversed for the following reasons. In enacting the 1952 patent statute (Title 35 US Code) Congress intended statutory subject matter to "include anything under the sun that is made by man." Diamond v. Chakrabarty, 477 U.S. 303, 206 U.S.P.Q. 193, 197 (1980) citing S. Rep. No. 1979, 82<sup>nd</sup> Cong., 2d Sess., 5 (1952); H.R. Rep. No. 1979, 82<sup>nd</sup> Cong., 2d Sess. 6 (1952). The Court further explained that 35 U.S.C. §101 does not embrace every discovery but "excludes laws of nature, physical phenomena and abstract ideas." Diamond v. Chakrabarty, 477 U.S. 303, (1980) citing Parker V. Flook, 437 U.S. 584 (1978); Gottschalk v. Benson, 409 U.S. 63, 67 (1973); Funk Seed Co. v. Kalo Co., 333 U.S. 127, 130 (1948); O'Reilly v. Morse, 15 How. 61 (1853); Le Roy v. Tatham, 14 How. 155, 175 (1852). The Examiner has rejected claims 1-28 because they only allegedly recite an abstract "idea of how to license intellectual property with a reservation of rights." This conclusion is traversed because: 1) the transfer of goods from a first party to a second party is a physical process not an an abstract idea; 2) because possession of the goods has been transferred from a first party to a second party, a legal right, possession, has been transferred simultaneous with the physical transfer; and 3) legal rights themselves are not abstract. The claimed invention is a process for transferring goods comprising the reservation of certain legal rights, specifically intellectual property rights.

Applicant respectfully submits that the Examiner's rejection that the claims "only constitute an idea of how to license intellectual property with a reservation of rights:"

- 1) does not consider the entire text of the claim (which reads on a physical process, the transfer of goods from one party to another), contrary to the instruction of the Court, because "[i]t is inappropriate to dissect the claims into old and new elements and then to ignore the presence of the old elements in the analysis[.]" Diamond v. Diehr, 450 U.S. 175, 209 U.S.P.Q. 1, 9 (1981); and
- 2) by considering only one clause of the claim, it is instead an erroneous rejection for lack of enablement under 35 U.S.C. §112 first paragraph which
- 3) perforce assumes patentable subject matter as a predicate.

Applicant respectfully submits that further analysis based on the holdings of the Court supports a conclusion of patentable subject matter for the claims currently pending.

That a process may be patentable, irrespective of the particular form of the instrumentalities used cannot be disputed . . . A process is a mode of treatment of certain materials to produce a given result. It is an act, or series of acts, performed upon the subject matter to be transformed and reduced to a different state or thing. If new and useful it is just as patentable as is a piece of machinery. Diamond v. Diehr, 450 U.S. 175, 209 U.S.P.Q. 1, 6 (1981)

Further in Diehr the Court stated that: "[t]ransformation and reduction of an article 'to a different state or thing' is the clue to the patentability of a process claim that does not include particular machines." Diamond v. Diehr, 450 U.S. 175, 209 U.S.P.Q. 1, 7 (1981) citing Gottschalk v. Benson, 409 U.S. 63, 70 (1972). The Court then proceeded to analyze respondents' claims according to the above statements from prior US Supreme Court cases. Id. Following the example of the Court, instantly, the claimed process of transferring the goods changes the state of the goods from a first state when they are in possession of the first party, who holds all right, title and interest in and to the goods, to a different second state when they are in the possession of the second party who holds all rights with the exception of the intellectual property rights (title to part of the goods because title to the intellectual property rights remains with the first party) and a partial interest (again with the exception of the intellectual property interest). This analysis

strongly suggests the Court would uphold the patentability of the claimed process because the legal state of the goods (an article) has been changed. Thus a machine or computer does not necessarily need to be involved. Id. Here the different state conferring patentability upon the claimed process (as between the first party and the second party) is a difference in 1) possession and 2) legal rights. The fact that the instantly claimed process involves differing legal states and the use of a legal instrument to affect the change in legal state is irrelevant to the inquiry of patentability because it is "irrespective of the particular form of the instrumentalities used." Diamond v. Diehr, 450 U.S. 175, 209 U.S.P.Q. 1, 6 (1981) *citing* Cochrane v. Deener, 94 U.S. 780, 787-788 (1877). Further, to argue legal processes are not patentable imputes a limitation that the legislature has not expressed because the Court has more than once cautioned that [the] "courts 'should not read into the patent laws limitations and conditions which the legislature has not expressed.'" Diamond v. Chakrabarty, 477 U.S. 303, 206 U.S.P.Q. 193, 196 *quoting* United States v. Dubilier Condenser Corp., 289 U.S. 178, 199, 17 U.S.P.Q. 154, 162 (1933).

The Examiner's statement that the claimed subject matter "does not apply, involve, use, or advance the technological arts" is respectfully traversed for the following reasons. The first prong of the test utilized by the Examiner (and the Office) unduly limits inventions to "the technological arts" because Article I Section of 8 of the Constitution states the purpose of the patent system is "To promote the Progress of Science and useful arts" not merely just the "technological arts." U.S. Const. Art. I §8 This narrowing of utility to just the technological arts is neither warranted by the express intent of Congress or the holdings of the Court because Congress intended statutory subject matter to "include anything under the sun that is made by man." Diamond v. Chakrabarty, 477 U.S. 303, 206 U.S.P.Q. 193, 197 (1980) *citing* S. Rep. No. 1979, 82<sup>nd</sup> Cong., 2d Sess., 5 (1952); H.R. Rep. No. 1979, 82<sup>nd</sup> Cong., 2d Sess. 6 (1952). The Court has expressly observed that "Flook did not announce a new principle that inventions in areas not contemplated by Congress when the patent laws were enacted are unpatentable *per se*." Diamond v.

Chakrabarty, 477 U.S. 303, 206 U.S.P.Q. 193, 200 (1980). This therefore must perforce include new legal processes as instantly claimed because the judicially created exceptions to patentability under §101 do not expressly exclude legal processes, i.e. the only processes expressly excluded are laws of nature, physical phenomena and abstract ideas." Diamond v. Chakrabarty, 477 U.S. 303, (1980), *citations omitted*.

The Examiner's statement that "all of the recited steps can be performed in the mind of the user or by use of pencil and paper" is respectfully traversed because: 1) the claimed transfer of goods from one party to another is a physical process not a mental one and 2) the reservation of rights by means of an instrument which is a contract, license or lease involves a physical instrumentality or a legal instrument (which is a legal apparatus), i.e. a document, not merely a mental instrumentality. Applicant respectfully submits that the fact that the claimed process may possibly be accomplished with pencil and paper is irrelevant because it is "irrespective of the particular form of the instrumentalities used." Diamond v. Diehr, 450 U.S. 175, 209 U.S.P.Q. 1, 6 (1981).

The Examiner has alleged that the claimed invention "does not produce[s] a useful, concrete and tangible result." This statement is respectfully traversed for the following reasons. First, Applicant respectfully notes that the criterion of "a useful, concrete and tangible result" may not be constitutionally durable insofar as it is impermissibly vague and overbroad. Second, regardless of the constitutional defects of this standard, Applicant respectfully submits that the instantly claimed process provides a useful result to inventors in possession of patent grants because it provides to such inventors a new and hitherto unused method or process for controlling the use of a patented article or material. This is consistent with the statutory grant of rights by Congress wherein the holder of a patent is granted "the right to exclude others from making, using or selling the invention throughout the United States." 35 U.S.C. § 154 Such a result is useful within the meaning of the standard applied because 1) legal rights are not abstract and 2) the utilization of legal rights produces a useful, concrete and tangible result by definition. Further, the standard was changed in AT&T to "whether

the algorithm-containing invention, as a whole, produces a tangible, useful result." AT&T Corp. v. Excel Communications, Inc., 172 F.3d 1352, 50 U.S.P.Q.2d 1447, 1454 (Fed. Cir. 1999) The word "concrete" has been excised from the judicial standard being applied. Applicant respectfully suggests that the M.P.E.P. should accordingly be corrected to reflect the change in the judicial standard.

Having rebutted the Examiner's allegation of unpatentability under 35 U.S.C. §101, Applicant respectfully requests withdrawal of this ground of rejection.

Accordingly having rebutted the Examiner's allegation of unpatentable subject matter under 35 U.S.C. §101 a Notice of Allowance appears to be next in order. Applicant respectfully solicits a Notice of Allowance for claims 1 - 28, the claims currently pending, or in the alternative an examination on the merits under 35 U.S.C. §§102, 103 and 112.

Respectfully submitted:

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